

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 DODE-00 PM-04 H-01 L-03
PA-01 PRS-01 /104 W
-----061940 231826Z /44

R 231753Z JUN 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 0474
INFO ALL EC CAPITALS
USMISSION GENEVA

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USEEC

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E.O.11652: N/A
TAGS: EFIN, ETRD, EEC
SUBJECT: RESULTS OF EUROPEAN INVESTMENT BANK (EIB)
BOARD MEETING AND COMMENTS ON COMMISSION PROPOSAL
FOR EC BORROWING SCHEME

REF: (A) EC BRUSSELS 6452, (B) BONN 10432

1. SUMMARY: THE EIB BOARD OF GOVERNORS REPORTEDLY
FAVORS SUBSTANTIAL INCREASE IN THE BANK'S CAPITAL
NEXT YEAR AND HAS TAKEN STEPS TO EXPAND BANK LOANS TO
HELP STIMULATE DEPRESSED SECTORS OF THE COMMUNITY.
MEMBER STATES ARE NOT EXPECTED TO SUPPORT THE COMMISSION
PROPOSAL FOR AN EC BORROWING SCHEME TO PROMOTE INVEST-
MENT AND EMPLOYMENT. THE NINE, INSTEAD, WILL LIKELY
ASK THE EIB TO EXPAND ITS EFFORTS. THE EIB ANNUAL
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REPORT INDICATES THAT THE BANK INCREASED ITS LENDING
TO THE NINE 18 PERCENT LAST YEAR AND THAT IT BORROWED
LARGELY IN DOLLARS, INCLUDING \$175 MILLION OF PLACE-
MENTS IN THE US. END SUMMARY.

2. PRIOR TO THE JUNE 20 EC FINANCE COUNCIL MEETING,
THE NINE FINANCE MINISTERS MET AS THE EUROPEAN

INVESTMENT BANK (EIB) BOARD OF GOVERNORS TO APPROVE THE BANK'S ANNUAL REPORT AND AGREE TO A LETTER TO THE JUNE 29-30 EUROPEAN COUNCIL ON FUTURE BANK ACTIVITIES. THE MARCH EUROPEAN COUNCIL MEETING HAD CALLED UPON THE EIB TO TAKE STEPS TO ASSIST WITH THE EC'S ECONOMIC PROBLEMS. COMMISSION AND COUNCIL SECRETARIAT OFFICIALS TELL US THE BOARD'S LETTER RESPONDED AS FOLLOWS:

A) THE BOARD IS PREPARED AT ITS 1978 ANNUAL MEETING TO AGREE ON THE AMOUNT AND TIMING OF AN INCREASE IN THE BANK'S CAPITAL WHICH MIGHT BE NEEDED TO SUPPORT A HIGHER LEVEL OF LENDING. EARLIER THE BOARD HAD DECIDED THAT THERE SHOULD BE NO FURTHER CAPITAL INCREASES UNTIL 1979 OR 1980. COMMISSION OFFICIALS SAY, HOWEVER, THE GOVERNORS ARE FAVORABLY DISPOSED TO

A SUBSTANTIAL INCREASE NEXT YEAR SHOULD THE EIB LENDING RATE JUSTIFY IT. THE BOARD, HOWEVER, DID NOT CONSIDER ANY SPECIFIC AMOUNT FOR SUCH AN INCREASE. EC OFFICIALS ADD THAT THE AMOUNT WOULD LARGELY DEPEND ON THE BANK'S ABILITY TO EXPAND ITS LENDING AND THIS WILL LARGELY BE A FUNCTION OF FINDING BANKABLE PROJECTS.

B) THE EIB WOULD CONCENTRATE ITS EFFORTS ON LOANS TO BACKWARD EC REGIONS AND TO STIMULATING DEPRESSED AREAS; UNEMPLOYMENT LEVELS WILL BE A CRITERION IN CONSIDERING LOAN PROPOSALS; ENERGY INVESTMENTS WILL BE GIVEN PRIORITY TO HELP REDUCE DEPENDENCE ON OIL LIMITED OFFICIAL USE

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IMPORTS.

C) BANK LENDING RULES WILL BE RELAXED SO THAT IT MAY PROVIDE UP TO 50 PERCENT OF THE INVESTMENT COST OF AN INDUSTRIAL PROJECT AMOUNTING TO 80 MILLION UNITS OF ACCOUNT (MUA, \$90 MILLION); THE PREVIOUS CEILINGS WERE 40 PERCENT AND 40 MUA RESPECTIVELY; THE EIB WILL PROVIDE CREDIT LINES WHICH BANKING INSTITUTIONS CAN DRAW UPON FOR RELENDING TO SMALL AND MEDIUM-SIZE BUSINESSES.

D) THE BOARD CALLED UPON MEMBER STATES TO GUARANTEE THE EXCHANGE RATE RISK FOR PRIVATE BORROWERS, PARTICULARLY FOR SMALL AND MEDIUM SIZE PRIVATE ENTERPRISES WHICH CANNOT AFFORD TO ASSUME THE RISK THEMSELVES. THIS GUARANTEE HAS BEEN AN IMPEDIMENT TO BANK LOANS, PARTICULARLY IN ITALY, AND THE UK. COMMISSION OFFICIALS NOTE, HOWEVER, THAT MEMBER STATES ARE ONLY ASKED TO OFFER SUCH GUARANTEES ON A CASE-BY-CASE BASIS. THUS, THERE ARE NO ASSURANCES THAT THIS PROBLEM WILL BE RESOLVED.

3. COMMISSION OFFICIALS NOTE THAT THE BOARD'S DECISIONS WILL AFFECT THE PROSPECTS OF THE COMMISSION'S RECENT PROPOSAL FOR AN EC COMMON BORROWING FACILITY TO RAISE CAPITAL TO PROMOTE INDUSTRIAL INVESTMENT. (SEE REF. A.) THEY SAY THAT THE EIB'S FUNCTIONS ARE ESSENTIALLY THE SAME AS THOSE OF THE PROPOSED NEW BORROWING. AS A RESULT, IF THE BOARD AGREES TO A SUBSTANTIAL CAPITAL INCREASE NEXT YEAR TO PROVIDE FOR A MAJOR INCREASE IN EIB LOANS, THERE WOULD BE NO NEED TO CREATE A NEW FACILITY. AS POINTED OUT IN REF. B, SEVERAL MEMBER STATES, ESPECIALLY THE FRG, AGREE WITH THIS VIEW. COMMISSION AND COUNCIL OFFICIALS CONCLUDE THAT THE NINE ARE LIKELY TO PUT

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ASIDE THE COMMISSION PROPOSAL IN FAVOR OF EXPANDED EIB ACTIVITIES.

4. THE BOARD'S ANNUAL REPORT INDICATES THAT EIB GRANTED 1,086 MUA OF LOANS AND GUARANTEES FOR PROJECTS IN THE EC, AN INCREASE OF 18.4 PERCENT OVER 1975. EIB OFFICIALS TELL US THAT THEY WOULD LIKE TO SUSTAIN OR INCREASE THIS RATE FOR THE NEXT SEVERAL YEARS, BUT TO DO SO THE BANK'S CAPITAL WILL HAVE TO BE INCREASED NEXT YEAR. LOANS TO LESS FAVORED REGIONS ACCOUNTED FOR 75 PERCENT OF THE EIB'S LENDING WITHIN THE EC; NEARLY 80 PERCENT OF BANK LOANS WENT TO THE UK, ITALY AND IRELAND. LOANS TO ENERGY PROJECTS

AMOUNTED TO 377 MUA, OF WHICH NUCLEAR POWER STATIONS ACCOUNTED FOR 25 PERCENT. LOANS TO THIRD COUNTRIES FOR DEVELOPMENT COOPERATION AMOUNTED TO 187 MUA OF WHICH PORTUGAL RECEIVED NEARLY HALF OF THIS AMOUNT. THE BANK BORROWED 749 MUA ON CAPITAL MARKETS OF WHICH TWO-THIRDS WAS IN DOLLARS. THE BOARD'S REPORT NOTED THAT THE DOLLAR REMAINED A RELATIVELY STABLE AND LIMITED OFFICIAL USE

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ATTRACTIVE CURRENCY. THE EIB PLACED TWO ISSUES ON THE US MARKET LAST YEAR TOTALLING \$175 MILLION; IT ALSO PLACED \$247 MILLION OF DOLLAR DENOMINATED ISSUES ON THE INTERNATIONAL BOND MARKET.

5. COMMENT: THE COMMISSION'S PROPOSAL TO ESTABLISH A COMMON BORROWING FACILITY TO STIMULATE INVESTMENT REFLECTS COMMISSION CONCERN OVER THE RELATIVELY LOW RATE OF PRIVATE INVESTMENT IN THE EC COMPARED TO OTHER MAJOR INDUSTRIALIZED COUNTRIES. HOWEVER, THE PROPOSED BORROWING AMOUNT OF ONE BILLION MUA WOULD ONLY HAVE A MARGINAL IMPACT ON TOTAL INVESTMENT IN THE EC. THE COMMISSION WOULD LIKE TO USE THE FACILITY TO ESTABLISH A COMMUNITY INVESTMENT POLICY. END COMMENT. MORRIS

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